

City and County of San Francisco

Office of the Controller – City Services Auditor

AIRPORT COMMISSION:

Compliance Audit of British Airways, PLC

DOCUMENTS DEPT.

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November 20, 2008

**CONTROLLER'S OFFICE
CITY SERVICES AUDITOR**

The City Services Auditor was created within the Controller's Office through an amendment to the City Charter that was approved by voters in November 2003. Under Appendix F to the City Charter, the City Services Auditor has broad authority for:

- Reporting on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conducting financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operating a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensuring the financial integrity and improving the overall performance and efficiency of city government.

The audits unit conducts financial audits, attestation engagements, and performance audits.

Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

We conduct our audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office (GAO). These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

Audit Team: Mark Tipton, Audit Manager
Vivian Chu, Associate Auditor



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

November 20, 2008

San Francisco Airport Commission
P.O. Box 8097
San Francisco International Airport
San Francisco, CA 94128-8097

President and Members:

The Controller's Office, City Services Auditor, presents its report concerning the audit of British Airways, PLC (British Airways). British Airways has an airline operating permit from the Airport Commission of the City and County of San Francisco to use the landing facilities at the San Francisco International Airport for its air transportation business.

Reporting Period: July 1, 2004, through June 30, 2008

Landing Fees Paid: \$5,817,126

Results:

British Airways overreported one revenue aircraft landing and underreported two revenue aircraft landings. As a net result of these errors, British Airways underpaid \$2,178.54 in landing fees plus \$490.17 in accrued interest, for a total of \$2,668.71 due the Airport.

British Airways' response and the Airport's response are attached to this report. The Controller's Office, City Services Auditor, will work with the Airport to follow up on the status of the recommendations made in this report.

Respectfully submitted,

Robert Tarsia
Deputy Audit Director

cc: Mayor
Board of Supervisors
Civil Grand Jury
Budget Analyst
Public Library

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INTRODUCTION

Audit Authority

The Office of the Controller (Controller) has authority under the San Francisco Administrative Code, Chapter 10, Article 1, Section 10.6-2 to audit, at regular intervals, all leases of city-owned real property where rent of \$100,000 or more a year is to be paid to the City. In addition, the City Charter provides the Controller, City Services Auditor (CSA), with broad authority to conduct audits. We conducted this audit under that authority and pursuant to an audit plan agreed to by the Controller and the Airport.

Background

British Airways, PLC (British Airways) has an airline operating permit from the Airport Commission (Commission) of the City and County of San Francisco to use the landing facilities at the San Francisco International Airport (SFO) for British Airways' air transportation business. The permit, which commenced on October 1, 1999, requires British Airways to submit to the Airport Department (Airport) a monthly report showing British Airways' actual revenue aircraft landings by aircraft type and other landing data necessary to calculate the landing fees. The Airport charges British Airways a landing fee based on the maximum landing weight of its revenue aircraft landings at SFO. These landings are those for which British Airways has received or made a monetary fee or charge. For every 1,000 pounds of aircraft landed, the Commission sets a fee that it may change annually. During our audit period, the Airport's fee per 1,000 pounds was \$3.214 for fiscal year 2004-05, \$3.213 for fiscal year 2005-06, \$3.336 for fiscal year 2006-07, and \$3.010 for fiscal year 2007-08. Within 15 days following the end of each month, British Airways is required to submit to the Airport a Monthly Air Traffic Activity Report (MATAR), which shows each landing by aircraft type.

Scope and Methodology

The purpose of this audit was to determine if British Airways complied with the reporting and payment provisions of its operating permit. Our audit period was from July 1, 2004, through June 30, 2008.

To conduct the audit, we examined the applicable terms of British Airways' permit, and the adequacy of its procedures for recording, summarizing, and reporting revenue aircraft landings. We tested whether British Airways accurately reported its revenue aircraft landings and the maximum

landing weights of its aircraft landed at SFO. We also determined whether British Airways owed any outstanding landing fee payments to the Airport for the audit period.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions, based on our audit objectives.

AUDIT RESULTS

British Airways Underpaid Its Landing Fees by \$2,636.03

From July 1, 2004, through June 30, 2008, British Airways reported 2,892 revenue aircraft landings and paid \$5,817,126 in landing fees to the Airport. Due to errors in preparing two monthly reports to the Airport, British Airways overreported one revenue aircraft landing and underreported two revenue aircraft landings. As a net result of these errors, British Airways underreported one landing and underpaid the Airport \$2,178.54 in landing fees plus \$490.17 in accrued interest, for a total of \$2,668.71. The exhibits below show British Airways' reported landings and fees paid (Exhibit 1) and the calculation of the underpaid landing fees (Exhibit 2) and accrued interest on those fees (Exhibit 3) based on the audited number of landings.

EXHIBIT 1

Number of Reported Landings and Landing Fees Paid July 1, 2004, Through June 30, 2008

Period/Aircraft	Aircraft Landing Weight (in lbs)	# of Landings	Total Landing Weight (in lbs)	Rate per 1,000 lbs	Landing Fees Due
July 1, 2004, through June 30, 2005					
B747-400	630,000	727	458,010,000	\$3.214	\$ 1,472,044
July 1, 2005, through June 30, 2006					
B747-400	630,000	720	453,600,000	3.213	1,457,417
July 1, 2006, through June 30, 2007					
B747-400	630,000	720	453,600,000	3.336	1,513,210
B777	460,000	1	460,000	3.336	1,534
July 1, 2007, through June 30, 2008					
B747-400	630,000	724	456,120,000	3.010	1,372,921
Total		2,892	1,821,790,000		\$5,817,126

Source: Airport reports on landing fees by aircraft type.

Note: Landing fees due are rounded amounts.

EXHIBIT 2		Calculation of Underpayment of Landing Fees July 1, 2004, Through June 30, 2008				
Month/Aircraft Type	Landing Weights (in lbs)	Reported Landings	Audited Landings	Over/(Under) Reported Landings	Rate per 1,000 lbs	Over/(Under) Paid Fees
January 2005 B747-400	630,000	62	61	1	\$3.214	\$ 2,024.82
May 2007 B747-400	630,000	60	62	(2)	3.336	(4,203.36)
Total		122	123	(1)		\$(2,178.54)

Source: Auditor's analysis.

EXHIBIT 3		Calculation of Accrued Interest for Underpayment of Landing Fees		
Month	Underpaid Landing Fees	Interest Rate per Month	Total Months (as of Sept 2008)	Total Accrued Interest (Simple Interest)
May 2007	\$2,178.54	1.5%	15	\$490.17

Source: Auditor's analysis.

Recommendations

The Airport should take the following actions:

1. Request British Airways to pay \$2,668.71 for underpaying its landings fees by \$2,178.54 during the audit period and \$490.17 in accrued interest on that underpayment.
2. Request British Airways to review its records carefully to determine the correct number of landings entered on the Monthly Air Traffic Activity Reports before submitting them to the Airport.

ATTACHMENT: BRITISH AIRWAYS' RESPONSE

BRITISH AIRWAYS

November 7, 2008

Robert Tarsia, Deputy Audit Director
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Dear Mr. Tarsia,

Thank you for your department's correspondence dated 10/31/08 with reference to the British Airways - Draft Audit Report which we received from Vivian Chu.

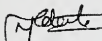
I have reviewed your summary and concur with your findings.

I would simply like to add as per the attached, British Airways in fact reported the correct number in the totals column of the malar. However, we neglected to report it in the summary area as the same (62). I would have hoped that if nothing else the reporting of two different numbers may have raised a flag of sorts with the airport's billing department and thus this issue would not have arisen and could have been corrected at the time.

Once the invoice from the airport is received it will be paid promptly.

Thank you to you and your team for their efforts.

Regards,


Matthew Roberts
Station Manager

cc: Vivian Chu, financial Auditor

newworld

P.O. Box 250539 San Francisco, CA 94125

British Airways is a trademark of British Airways plc. Box 305, Mountain View, CA 94039. Registered in the United States.

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ATTACHMENT: AIRPORT'S RESPONSE



San Francisco International Airport

Box 580
San Francisco, CA 94121-0580
Tel: (415) 421-0000
Fax: (415) 827-0905
www.sfo.gov

November 5, 2008

AIRPORT
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Mr. Robert Tarsia
Deputy Audit Director
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Subject: British Airways Audit

Dear Mr. Tarsia:

The Airport concurs with the audit findings and will implement the recommendations per the attached audit response and recommendations form.

If you have any questions, please call me at (650) 821-4529.

Sincerely,

A handwritten signature in dark ink, appearing to read "Charles H. Shea".

Charles H. Shea
Property Manager
Aviation Management

Attachment

Recommendation	Responsible Agency	Response
1. Request British Airways to pay \$2,668.71 for underpaying its landing fees by \$2,178.54 during the audit period and for \$490.17 in accrued interest on that underpayment.	Airport	The Airport will bill British Airways \$2,668.71 for the under-reported landed weights; Aviation is waiving the collection charge on the underpayment.
2. Request British Airways to review its records carefully to determine the correct number of landings entered on the Monthly Air Traffic Activity Reports before submitting it to the Airport.	Airport	The Airport concurs with your recommendation and will remind British Airways to review its records carefully to assure the correct number of landings is entered on the Monthly Air Traffic Activity Reports that are submitted to the Airport.

